Digital currency - Bankosaurus mutation into Banktech or back to BigTech dependency

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We have spent loads of time to grasp what is happening under the bonnet of the ongoing digital euro (d€) development.
We started 5 years ago looking at digital currency and we had concluded:

1. The d€ would happen because the real reason was geopolitical of strategic independence and this has only exacerbated over the years - **TICK**
2. That the survival of Bankosauruses was hence subordinated to monetary sovereignty and therefore Bankosauruses should accept the d€ would come and adapt/evolve – **TICK for the 1st part, not so much for the latter**
3. That Americans and Chinese would use digital currency as an hegemonic tool and the former could use the shortcut of private solutions (we suggested DIEM/LIBRA) as a shortcut to leapfrog the ECB and launch d$ quickly – **TICK SQUARED**

Years have passed and:

- Bankosauruses are still lobbying against the d€, moving from Frankfurt, where they found little sympathy to Brussels where co-legislators could be more permeable to moaning and whining
- The ECB is even more determined to defend monetary sovereignty
- US companies' lobby has quietened down
- US adoption of stablecoins as hybrid proxy of the d$ has accelerated and is gaining traction by the day

What we understand is that the ECB is working at a d€ platform which will focus on payment settlement in a distributed, yet centralised system, leaving aspects of smart-contract-like programmability to private PSP (banks and payment companies).
In simple words, the ECB is saying: "we put the d€ symbol on it, we are in charge of making sure payments get settled", you guys

(banks/payment companies) are in charge of interpreting what the client/user wants, we give you the keys to the system, tell us and we execute what you ask the system to do. In other words, the ECB is asking Bankosaurus to become BigTech, giving it the power to develop its own smart contract. "*You can take a horse to water but you can't make it drink*", they say.
The rulebook this summer should specify who will get the access key to the d€ platform and it is unclear how non-European companies could be excluded for strategic independence purposes.

The logic should be that EU banks/payment companies should unite to share the development costs of designing a new logic/system and establish a standard via scale.
Each member could then individually use it to implement added-value services and use cases to make the d€ appealing and useful to customers.
But EU banks are illogical and uncooperative, otherwise we would already have a pan-European payment scheme and EPI would be a success.
Here is where US companies come back on the scene.
Today EU payments depend on VISA/Mastercard, flagging a problem of strategic independence.
Tomorrow, they could perpetuate that, developing the d€ use cases and the new smart contracts underlying them, once again de facto controlling European payments, with an ECB settlement instead.

You know the conclusion… Don't look up!

We believe the ultimate success of the d€ will be determined both by the economic incentives of the scheme (aka the compensation model to be determined by the regulator, whereas the fees on added value services will be outside of the scheme hence on a free competition basis), as well as by its customer experience, i.e. the ease of use and the creation of new, d€-based services, which will solve new customer needs.
We know DLT-based crypto currencies and stablecoins – largely USD-based today – offer such functionalities via flexible programmability of smart contracts. We understand the d€ should leave the responsibility of conditional payment implementation to banks/PSPs,

at least at a 1st stage, with the possibility to upgrade to a more future/visionary system down the road.

We see European banks/payment companies having to provide innovative products and services, to mitigate the impact on banks and payment companies from inevitable loss in revenues on basic services. The challenge will be for such companies to develop added-value use cases which will turn the d€ from a mere payment system into a platform of services to compete with non-European alternatives or simply introducing new solutions unavailable with today's payment systems.

We see the argument on d€ deposit limits as potentially counterproductive for the d€ success as there has been no such debate in the US on stablecoins/crypto and the liquidity drainage depends on the success of such digital payment with customers vis-à-vis their banking deposits alternative, rather than from impositions of the law.

We continue to see Big Tech as the main structural threats – particularly now that it is being supported by the US government in the spreading of private, USD-backed digital currencies like stablecoins. This is requiring Bankosauruses to quickly review their business model, fast adapting by genetic mutation – embracing technology and streamlining products/processes in standardised banking activity – to survive and perpetuate the specie. Banks and payment companies will have to show their innovation abilities now, with the d€ platform.

We see the d€ as an inevitable development, at this point for urgent defensive purposes.

Our extensive work on this front (Download RegObs Special Report - Digital euro: the ECB saving Europe again - by A.Filtri & Team - pp 95, RegObs Special Report - Bankosaurus jumping on the asteroid - by A.Filtri & Team - pp 86, RegObs Special Report - d€ asteroid: from theory to the real thing - by A.Filtri & A.Nigro - pp 25) explains how the geopolitical aspect is the strongest reason why central bank digital currencies will soon be a reality (at least in Europe), in our view.